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BAUCUS TAX CUTS FOR FAMILIES, HOMEOWNERS, SOLDIERS REMAIN IN FINAL BUDGET FOR FISCAL YEAR 2009

Finance Chairman's provisions extend marriage penalty relief and tax credits for families with children, create tax cuts for members of military and homeowners, and stop spike in estate tax rates

Washington, DC – The final conference report on the Fiscal Year 2009 budget retains a plan by Senate Finance Committee Chairman Max Baucus (D-Mont.) to cut \$340 billion in taxes for America's working families, and particularly for the nation's military men and women. A Baucus amendment originally added to the Senate budget extended a number of 2001 tax cuts that help working families, including a tax credit provided for each child in a family and relief from the joint-filing penalty paid by America's married couples. The Baucus package also includes fully paid-for tax relief to members of America's military, including a provision allowing combat pay to count toward a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families. It also makes available a new standard deduction for property taxes to more than 28 million American homeowners. The budget conference report is meant to guide Congress in legislating tax and appropriations measures for FY2009.

"Times are tight for a lot of parents, for a lot of homeowners, and certainly for the men and women serving our country overseas. Plain and simple, America's working families need these tax cuts," said Baucus. **"The tax cuts in my amendment will help married couples, moms and dads, and all our military folks, as well as homeowners who could use some tax help too. With this vote, we're doing what's right for Montana and for states across the nation - sending extra budget dollars back to the folks who need them most."**

Baucus's Finance Committee has jurisdiction over U.S. tax policy. Specifically, the Baucus package uses surplus funds to provide:

- permanent extension of the 10 percent income tax bracket, resulting in savings for every taxpayer – average \$498
- permanent extension of the increased refundable child tax credit, with additional eligibility for lower-income Americans, saving 31.3 million Americans an average \$1,025
- permanent marriage penalty tax relief, saving 29.5 million American couples at an average of \$686 per year
- permanent extension of the tax credit for child care expenses
- permanent extension of the increased adoption tax credit

The amendment also provides an extension of 2009 estate tax law, including rate and exemption levels. This will stop a 2011 spike in estate tax rates and protect tens of thousands of Americans from paying the estate tax at all. Baucus favors the full repeal of the estate tax.

To help more of America's 72 million homeowners access tax relief, the Baucus amendment also provides a new standard deduction for property taxes for those Americans who do not itemize on their Federal tax returns. Under the Baucus plan, approximately 28.3 million property taxpayers who do not itemize would be eligible for a property tax deduction of \$500 for single filers and \$1000 for married couples filing jointly.

Also included are provisions providing tax relief in the budget to America's military men and women. Congress recently voted to approve the Heroes, Earnings, Assistance and Relief Act (HEART) to make the tax relief a reality for the nation's fighting men and women, and for veterans. Military tax relief provided for in the budget includes:

- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit, a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families.
- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.
- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.
- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans—such as payments of excess state revenue—as nontaxable gifts.
- A permanent extension of a provision that gives intelligence service employees a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home from capital gains tax, which is often necessary due to frequent deployment. In the legislation passed today, this provision is also extended to members of the Peace Corps.
- Permission for a soldier's basic housing allowance to be excluded when their income status is being determined for purposes of a developer's eligibility for low-income housing credits and tax exempt bonds.
- The ability for families of Reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer (Included in H.R. 3997).

- A permanent allowance for all veterans to use qualified mortgage bonds to purchase their homes.
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts.
- A 180-day period for Reservists called to active duty to use unspent funds in a health flexible spending account or cafeteria plan.

While surplus budget funds cover the cost of most of the Baucus provisions, military tax relief is paid for with four additional offsets. The bill makes certain that individuals who relinquish their U.S. citizenship or long-term U.S. residency pay the same Federal taxes for appreciation of assets, such as stocks or bonds, which they would pay if they sold them as U.S. citizens or residents. It also increases the penalty for entities failing to file required information returns. Another offset allows reservists returning from a tour of duty to opt back into a civilian employer's health insurance plan. Finally, the package allows the Social Security Administration and the Veterans' Administration to work together to verify low-income status when distributing veteran's benefits.

To help families along America's Gulf Coast continue to rebuild after Hurricanes Katrina and Rita, the Baucus amendment also keeps those families from being hit with extra taxes when they take state grants. The amendment will ease tax burdens on homeowners who claimed a casualty loss deduction following the 2005 hurricanes and who have also received a state Road Home rebuilding grant.

Under the amendment, any surplus budget funds remaining are to be designated for tax relief as well.

See also the Senate Finance Committee report, "Tax Cuts for Families, Homeowners, and Soldiers" at <http://finance.senate.gov/press/Bpress/2008press/prb031308.pdf>.

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